

SURREBUTTAL TESTIMONY AND EXHIBITS OF
GABY SMITH
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-319-E
IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC
FOR ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS AND
REQUEST FOR AN ACCOUNTING ORDER

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Gaby Smith. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the State of South Carolina as an Audit Manager, in the Audit Department of the South Carolina Office of Regulatory Staff (“ORS”).

Q. ARE YOU THE SAME GABY SMITH WHO PRESENTED DIRECT AND SUPPLEMENTAL TESTIMONIES IN THIS DOCKET?

A. Yes. I pre-filed direct testimony and eight (8) exhibits with the Public Service Commission of South Carolina (“Commission”) on February 26, 2019. I also filed supplemental direct testimony and eight (8) exhibits on March 6, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain issues raised in the rebuttal testimonies of Duke Energy Carolinas, LLC. (“DEC” or “Company”) witnesses Kim

Smith, Renee Metzler and Lesley Quick. My surrebuttal will address the Company's rebuttal testimonies in regards to:

- ORS Adjustment #21 to Annualize Operation and Maintenance ("O&M") Non-Labor Cost,
- ORS Adjustment #22 to Normalize O&M Labor Expenses,
- ORS Adjustment #25 to Amortize Rate Case Costs,
- ORS Adjustment #28 to Adjust for Credit Card Fees,
- ORS Adjustment #29 to Adjust O&M for Executive Compensation,
- ORS Adjustment #30 to Adjust for Customer Connect Additional Expense and Deferral,
- ORS Adjustment #36 to Remove Certain Expenses,
- ORS Adjustment #37 Customer Growth Adjustment, and
- ORS Adjustment #38 to Adjust Revenue, Taxes and Customer Growth for the Proposed Increase.

My surrebuttal testimony also updates ORS adjustment amounts for ORS Adjustment #30 to Adjust for Customer Connect Additional Expense and Deferral and Adjustment #32 to Synchronize Interest Expense with End of Period Rate Base.

Q. PLEASE DESCRIBE ORS'S RESPONSE TO THE COMPANY'S REBUTTAL TESTIMONIES IN REGARD TO CERTAIN ADJUSTMENTS.

A. ORS's responses to the adjustments are as follows:

Adjustment #21 - Annualize O&M non-labor expenses

Company witness Smith states in her rebuttal testimony that annualizing the impacts of inflation to an end of test period level is based on actual known and measurable inflation metrics. Per S.C. Code Ann. Regs.103-823(A)(3), the Commission requires rate applications to be based on a historic 12-month test period. Traditionally, the Commission allows

1 adjustments to the Test Year to reflect known and measurable changes in the Company's
2 operating experience. Adjustments for "inflation" are not known and measurable.
3 Consistent with Commission Order Nos. 84-108 and 85-841 in which the Commission
4 expressly rejected adjustments for inflation, ORS recommends the Commission reject
5 recovery of these costs, which are based on projections and estimates, as it shifts the risks
6 from the Company to the customers.

7 Adjustment #22 – Normalize O&M Labor Expenses

8 Based on the rebuttal testimony of Company witness Smith, the Company agrees
9 with ORS's adjustment to update the salary allocator for DEC for wages and salaries and
10 related employee benefit costs to the same date as the O&M labor expense, July 1, 2018.

11 The Company does not agree with ORS's recommendation to remove 50% of the
12 Company's long and short term incentive ("LTI" and "STI") program costs for the reasons
13 discussed by Company witness Metzler. Company witness Metzler's rebuttal testimony
14 primarily addresses the Company's position in regards to overall compensation philosophy,
15 the compensation programs provided by DEC, why a competitive compensation package is
16 important, and how eliminating any portion of incentive compensation would decrease
17 employees' total compensation to less than competitive levels.

18 Company witness Metzler's rebuttal testimony discusses earnings per share ("EPS")
19 and also mentions Total Shareholder Return ("TSR"). A general definition of TSR is the
20 total return of a stock to an investor, or the capital gain plus dividends. Both EPS and TSR
21 are metrics that involve the performance of a Company's stock. Company witness Metzler's
22 rebuttal testimony includes Table 1: Summary 2017 STI Plan. This table indicates the

Executive Leadership Team's ("ELT") STI payouts are based on 50% EPS and all remaining Non-ELT employees' STI payouts are based on 30% EPS.

Company witness Metzler's rebuttal testimony fails to include the components of the Company's LTI plan where LTI awards are based 50% on EPS and 25% on TSR, for a total 75% of the LTI payouts directly tied to the Company's stock performance. ORS determined that an average adjustment of 50% to total LTI and STI payouts was reasonable and appropriate in this docket. An adjustment of 50% to total LTI and STI plan payouts equitably shares the costs between customers and shareholders. If employees are largely driven by stock performance rather than the service to customers, a balanced approach to equitably share those costs is important. ORS's recommendation does not require DEC to reduce the total compensation package provided to their employees, only that the costs of the LTI and STI plans be shared equally between customers and shareholders.

An increase in the Company's EPS and TSR, due to an increase in the Company's rates through a rate case, with no actual improved Company efficiency or operating performance, substantially influences the LTI and STI payouts made to employees. This removes the incentive for employees to achieve earnings goals through performance, customer satisfaction, efficiencies, and cost reduction measures. Shareholders are the primary benefactors of increased EPS and TSR, of which these incentives are directly based. It also shifts the risks from the Company to the customer if the Company is allowed recovery of 100% of its LTI and STI payouts.

In addition, the Commission has the authority to regulate the Company's management practices and decisions in regard to prudence but does not regulate the Company's management of EPS or TSR. Allowing regulated utilities the recovery of

1 employee incentives based on stock performance, EPS or TSR, would limit the
2 Commission's ability to determine the prudence of those incentives. The Company's request
3 to allow cost recovery of employee incentives based on stock performance, EPS or TSR,
4 would also be a vast departure from this Commission's decisions on this issue. In Order No.
5 2012-951, the Commission found that incentive compensation is an accepted and necessary
6 component of a utility company's compensation package and that there are sound reasons
7 for offering incentive compensation as part of a competitively reasonable compensation
8 package. In that order, the Commission also found that recovery of 50% of this incentive
9 compensation expense is just and reasonable.

10 ORS's adjustment to remove 50% of the LTI and STI program incentive costs is
11 reasonable as it is an equitable sharing of the costs between the customers and the Company.

12 Adjustment #25 - Amortize Rate Case Costs

13 In rebuttal testimony, Company witness Smith opposes ORS's recommendations to
14 exclude a return on the deferred rate case expenses during the deferral period and exclude
15 rate case expenses from rate base. ORS reaffirms its original position to exclude a return on
16 rate case expenses and exclude rate case expenses from rate base as the expenses are related
17 to O&M and are not capital in nature. The Company does not currently have a Commission
18 approved accounting order authorizing a deferral.

19 In addition, Company witness Smith opposes ORS's recommendation to disallow
20 certain rate case expenses due to the Company's lack of sufficient documentation to support
21 the costs. ORS attempted on several occasions to obtain sufficient documentation from the
22 Company. On December 12, 2018, ORS sent Audit Request #16 to the Company asking the
23 Company to provide a summary listing of rate case expenses, copies of all invoices and proof

1 of payment. *See* Confidential Surrebuttal Audit Exhibit GS-9, page 1. On December 27,
2 2018, the Company responded to Audit Request #16 by providing a summary excel file, legal
3 invoices excel file, an internal labor excel file, and various invoices for some of the legal
4 expenses. Confidential Surrebuttal Audit Exhibit GS-9, page 2 shows an example of the
5 excel information provided for amounts billed to DEC without a supporting invoice. On
6 January 3, 2019, ORS issued ORS Audit Request #36 to request copies of legal invoices for
7 the legal expenses that were not supported by the Company, *See* Confidential Surrebuttal
8 Audit Exhibit GS-9, page 3. On January 9, 2019, the Company responded. *See* Confidential
9 Surrebuttal Audit Exhibit GS-9, page 4. On January 14, 2019, ORS issued ORS Audit
10 Request #48 to request the Company provide additional detailed information to include
11 billing rates, billed time, and a description of services. This audit request has been attached
12 as Confidential Surrebuttal Audit Exhibit GS-9, page 5. On January 17, 2019, the Company
13 submitted an excel workbook including a column with a general description for the legal
14 expenses, and timesheets which lacked any reference to the specific legal action, service
15 performed, or person billed which are shown on Confidential Surrebuttal Audit Exhibit GS-
16 9, pages 6 and 7.

17 On February 22, 2019, Company witness Smith contacted ORS to discuss the level
18 of detail that was needed to provide sufficient support. The Company provided a small
19 sample that contained some additional information, which was characterized as the best the
20 Company could provide. ORS clarified that proper documentation for cost recovery would
21 include itemized work performed, hourly rates, and a detailed accounting of the time spent
22 for the work performed. This information should be provided to the Company from the
23 vendor to support the expenses the Company is requesting to include as rate case expenses.

1 ORS cannot verify the summary information created by the Company is accurate. Complete
2 information is important to ensure that customers pay for only expenses related to the rate
3 case. ORS recommends the Commission adopt ORS's adjustment to rate case expenses and
4 reject any rate case expenses not properly supported by the Company.

5 Adjustment #28 - Adjust for Credit Card Fees

6 Company witness Quick, in her rebuttal testimony, opposes ORS's recommendation
7 to exclude the Company's growth projections in the calculation of credit card fee expenses.
8 ORS's position for rejecting inflation-based estimates applies to the ORS recommendation
9 the Commission reject the 20% growth projections included by the Company in the
10 calculation of credit card fees. Per S.C. Code Ann. Regs.103-823(A)(3), the Commission
11 requires rate applications to be based on a historic 12-month test period. Traditionally, the
12 Commission allows adjustments to the Test Year to reflect known and measurable changes
13 in the Company's operating experience. Adjustments for growth projections are not known
14 and measurable. Consistent with Commission Order Nos. 84-108 and 85-841 in which the
15 Commission expressly rejected adjustments for inflation, ORS recommends the Commission
16 reject recovery of these costs, which are based on projections and estimates, as it shifts the
17 risks from the Company to the customers.

18 Company witness Quick states that the Company experienced an average historic
19 year over year growth rate of 9% from 2014 to 2017. In addition, to support her findings,
20 she states that the Company reviewed other utilities around the country implementing fee
21 free credit card usage and found that the projected increase in credit card transactions cited
22 by these utilities ranged from 5% to 30%. This further supports ORS's position as to the
23 uncertainty of the Company's proposed growth projection.

On page eight of Company witness Quick's rebuttal testimony, she proposes the Commission approve a deferral to include the incremental credit card fees that ORS does not recommend be included in this adjustment. ORS recommends the Commission reject Company witness Quick's request to establish a deferral for the credit card fee expenses should the Commission not include the growth projections as the credit card fees are not extraordinary in circumstance or magnitude. See ORS witness Payne's surrebuttal testimony for discussion of deferrals.

Adjustment #29 - Adjust O&M for Executive Compensation

ORS recommends the Commission adopt the ORS adjustment to O&M for executive compensation. The Company's adjustment eliminates 50% of the compensation (base pay, LTI and STI) of the four DEC executives with the highest level of compensation. ORS does not remove 50% of the LTI and STI payments for these four executives in its adjustment since 50% of those payments were already removed in Adjustment #22 by ORS. ORS reaffirms its calculation of this adjustment.

Adjustment #30 - Adjust for Customer Connect Additional Expenses and Deferral

Upon review of Company witnesses Smith's and Hunsicker's rebuttal testimony, ORS proposes an additional adjustment to O&M expenses for the Customer Connect Project to reflect the actual incurred level of expenses in 2018 of \$3,189,000. This results in an adjustment to O&M of \$2,549,000 as \$640,000 of costs associated with Customer Connect were included in the test year expenses. Inclusion of this adjustment results in an additional adjustment to income taxes of (\$636,000) for a total adjustment to income taxes of (\$901,000) associated with Customer Connect.

1 ORS recommends the Commission reject Company witness Hunsicker's forecasted
2 average O&M expense of \$4.7 million. This amount includes forecasted costs of \$1.8 million
3 for inflation and contingency. Per S.C. Code Ann. Regs.103-823(A)(3), the Commission
4 requires rate applications to be based on a historic 12-month test period. Traditionally, the
5 Commission allows adjustments to the Test Year to reflect known and measurable changes
6 in the Company's operating experience. Adjustments for inflation and contingencies are not
7 known and measurable. Consistent with Commission Order Nos. 84-108 and 85-841 in
8 which the Commission expressly rejected adjustments for inflation, ORS recommends the
9 Commission reject recovery of these costs, which are based on projections and estimates, as
10 it shifts the risks from the Company to the customers. Due to ORS's additional adjustment,
11 ORS recommends cancellation of the accounting order (Order No. 2018-552) for deferred
12 expenses related to Customer Connect on the date of the order issued by the Commission in
13 this docket.

14 Adjustment #36 – Remove Certain Expenses

15 ORS recommended an adjustment to other O&M expense by (\$2,399,000) and
16 income taxes by \$599,000 to disallow sponsorships, lobbying expenses, service awards,
17 advertising and other miscellaneous items. These items are non-allowable and not
18 necessary to provide electric service to customers. Subsequent to filing the application, the
19 Company proposed an adjustment to other O&M expense of (\$227,000) and income taxes
20 of \$57,000 to remove lobbying costs and image building advertising.

21 Based on the rebuttal testimonies of Company witnesses Smith and Metzler, the
22 Company disagrees with ORS removing items associated with employee incentives, any
23 costs to recognize and reward Company employees, lineman's rodeo costs, organization

1 dues, costs that are not 100% related to South Carolina (“SC”), timing differences and
2 litigation expenses as part of its non-allowable adjustment.

3 ORS performed its non-allowable review of the Company’s accounting records over
4 a three (3) month period, concluded its initial review, and sent its list of non-allowable
5 transactions to the Company on January 28, 2019. ORS requested the Company provide
6 additional supporting documentation and detailed reasoning for why expenses should be
7 allowed and included for recovery from customers. On February 11, 2019, ORS contacted
8 the Company to inquire if the Company’s response was forthcoming related to the
9 transactions deemed non-allowable by ORS. On that same day, ORS received a response
10 from the Company which indicated the Company reviewed the ORS spreadsheet containing
11 the list of non-allowables. The Company’s response identified some transactions the
12 Company intended to remove in the updated supplemental filing which included a new pro
13 forma adjustment called “Remove Certain Expenses.” The Company’s response also
14 identified instances where ORS duplicated removal of the same transaction and instances
15 where ORS recommended removing North Carolina (“NC”) specific costs, like Department
16 of Motor Vehicle (“DMV”) costs, which were allocated between NC and SC. The Company
17 indicated ORS’s adjustment to non-allowables did not identify the comparable SC specific
18 costs that were also allocated between NC and SC.

19 The Company indicated in its response all remaining transactions identified by ORS
20 in the spreadsheet were reasonable expenses attributed to: prudent utility operations;
21 community engagement; and maintenance of an engaged workforce. ORS requested the
22 Company identify all transactions that were removed more than once, and on February 18,
23 2019, ORS received the Company’s response. ORS modified its non-allowable adjustment

1 to remove duplicate items. The Company provided no additional supporting documentation
2 for specific non-allowable transactions.

3 Company witness Metzler, in her rebuttal testimony, specifically addresses ORS's
4 non-allowable adjustment in regard to spot bonuses (exceptional contribution awards), lump
5 sum merit payments, service awards, safety awards and lineman's rodeo. ORS
6 recommended an adjustment to remove amounts associated with spot bonuses, service
7 awards and safety awards consistent with Commission Order Nos. 91-595 and 94-1229. In
8 these Commission Orders, the Commission removed sales incentive awards, safety and
9 length of service awards, and other miscellaneous gifts and awards. ORS removed costs
10 associated with the lineman's rodeo as costs associated with competitions between linemen
11 from various utilities are not necessary to provide quality electric utility service to customers.
12 ORS's treatment of rodeo related expenses in this docket is consistent with ORS's treatment
13 of rodeo related expenses in other SC gas and electric utility rate cases and Rate Stabilization
14 Act filings. The Company is incorrect in its statement that ORS's non-allowable adjustment
15 removed amounts associated with lump sum merit payments made by the Company.

16 Company witness Smith, in her rebuttal testimony, specifically addresses
17 organization dues, costs that are not 100% related to SC, timing differences due to accrual
18 accounting, and litigation expenses. Company witness Smith specifically identifies the
19 Company's request to recover from its customers membership dues for local Chambers of
20 Commerce, Visit Greenville SC and the Spartanburg Development Association. ORS
21 removed 50% of the dues associated with Chambers of Commerce as part of its non-
22 allowable adjustment consistent with Commission Order Nos. 94-1229, 01-887, and 02-285
23 where the Commission found that one-half of dues paid to state and local Chambers of

Commerce should be included in cost of service. In regards to the transactions associated with Visit Greenville SC and the Spartanburg Development Association, ORS removed 100% of amounts associated with transactions associated with Visit Greenville SC and the Spartanburg Development Association, based on the Company's designation of them as being related to "Memberships in Social and Athletic Clubs (including but not limited to Chamber of Commerce, Rotary, Lions, etc.)." Removal of costs for transactions associated with memberships in social and athletic clubs is consistent with Commission Order Nos. 91-595 and 94-1229.

The Company asserts that ORS included in its adjustment for non-allowables transactions related to costs that are not 100% related to SC and timing differences for accrual accounting. ORS provided the Company ample opportunity to identify and provide additional supporting documentation for any transactions for which they did not agree with ORS's treatment as non-allowable. The Company failed to specifically identify transactions included in ORS's non-allowable adjustment related to these items during the non-allowable review process. ORS first became aware of the Company's treatment of DMV registration fees for transmission vehicles while reading Company witness Smith's rebuttal testimony. The same is also true for transactions included in ORS's non-allowable adjustment related to expenses incurred and accrued in a previous period but not paid until the test year. Had the Company properly supported these transactions with the explanations in Company witness Smith's testimony when ORS originally asked for support, ORS would have had the opportunity to closely review and verify these transactions further, determined the appropriate treatment, and modified its non-allowable adjustment appropriately. As such,

ORS has not verified Company's witness Smith's claims and ORS recommends the Commission reject the Company's position.

ORS's removal of litigation expenses as part of its non-allowable adjustment is discussed in detail by ORS witness Hamm's surrebuttal testimony.

Adjustments #33 - Adjust for 1/8 O&M for Accounting and Pro Forma Adjustments, Adjustment #37 - Customer Growth, and Adjustment #38 - Adjust Revenue, Taxes and Customer Growth for the Proposed Increase

ORS and the Company agree on the methodology used in calculating these adjustments. ORS and Company amounts differ due to the underlying adjustments of ORS and the Company and the recommended return on equity.

Q. DID ORS UPDATE ANY OTHER ADJUSTMENTS AS PART OF SURREBUTTAL TESTIMONY?

A. Yes. ORS updated ORS Adjustment #32 to Synchronize Interest Expense with End of Period Rate Base due to an increase in the weighted average cost of debt rate to 4.53% from 4.44% as accepted by ORS witness Parcell in his surrebuttal testimony.

Q. PLEASE IDENTIFY ADDITIONAL EXHIBITS ATTACHED TO YOUR SURREBUTTAL TESTIMONY.

A. I have attached the following exhibits to my surrebuttal testimony to reflect the update to ORS Adjustment #30 for the Customer Connect Project, the increase in the weighted average cost of debt rate to 4.53% from 4.44%, and the resulting changes to fall out adjustments:

- Surrebuttal Audit Exhibit GS-1: Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase

- 1 • Surrebuttal Audit Exhibit GS-2: Explanation of Accounting and Pro Forma
- 2 Adjustments - Retail
- 3 • Surrebuttal Audit Exhibit GS-3: Electric Plant in Service at Original Cost
- 4 • Surrebuttal Audit Exhibit GS-4: Accumulated Depreciation and Amortization –
- 5 Electric Plant in Service
- 6 • Surrebuttal Audit Exhibit GS-5: Materials and Supplies
- 7 • Surrebuttal Audit Exhibit GS-6: Working Capital Investment
- 8 • Surrebuttal Audit Exhibit GS-7: Weighted Cost of Capital
- 9 • Surrebuttal Audit Exhibit GS-8: Operating Experience, Rate Base and Rate of
- 10 Return Reflecting the Company's Proposed Increase
- 11 • Confidential Surrebuttal Audit Exhibit GS-9: Company responses to ORS Audit
- 12 Request #16, #36, and #48

13 **Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON**
14 **INFORMATION THAT BECOMES AVAILABLE?**

15 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
16 surrebuttal testimony should new information not previously provided by the Company, or
17 other sources, become available

18 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

19 **A.** Yes, it does.

Duke Energy Carolinas, LLC
Operating Experience, Rate Base and Rate of Return Reflecting ORS' Proposed Increase
Total and Retail Electric
For the Test Year Ended December 31, 2017
Docket No. 2018-319-E

		TOTAL ELECTRIC - NC & SC		(000's Omitted)			
		(1)	(2)	(3)	(4)	(5)	(6)
Line No.	Description	Total Company Per Books	SC Retail Per Books	ORS Accounting & Pro Forma Adjustments	After ORS Accounting & Pro Forma Adjustments	ORS Proposed Increase	After Proposed Increase
1	<u>Operating Revenues</u>	\$ 7,315,231	\$ 1,733,770	(71,633) (A)	\$ 1,662,137	\$ 82,357 (R)	\$ 1,744,494
2	<u>Operating Expenses:</u>						
3	Fuel Used in Electric Generation	\$ 1,473,809	\$ 338,575	23,771 (B)	\$ 362,346	0	\$ 362,346
4	Purch. Pwr. & Net Interch. (Non-Fuel)	348,770	85,559	0 (C)	85,559	0	85,559
5	Other O&M Expenses	1,920,225	469,026	(54,209) (D)	414,817	0	414,817
6	Depreciation & Amortization	1,134,170	251,518	71,516 (E)	323,034	0	323,034
7	General Taxes	277,321	85,270	8,271 (F)	93,541	365 (S)	93,906
8	Interest on Customer Deposits	8,500	1,023	0	1,023	0	1,023
9	Income Taxes	618,934	149,043	(85,220) (G)	63,823	20,457 (T)	84,280
10	Amort. of Investment Tax Credit	(5,298)	(1,265)	9 (H)	(1,256)	0	(1,256)
11	<u>Total Operating Expenses</u>	\$ 5,776,431	\$ 1,378,749	(35,862)	\$ 1,342,887	20,822	\$ 1,363,709
12	<u>Operating Income</u>	1,538,800	355,021	(35,771)	319,250	61,535	380,785
13	<u>Customer Growth</u>	0	0	2,876 (I)	2,876	554 (U)	3,430
14	<u>Net Operating Income for Return</u>	\$ 1,538,800	\$ 355,021	(32,895)	\$ 322,126	\$ 62,089	\$ 384,215
15	<u>Rate Base:</u>						
16	Gross Plant in Service	\$ 38,056,481	\$ 9,087,105	637,046 (J)	\$ 9,724,151	0	\$ 9,724,151
17	Accum. Depr. & Amort.	(15,274,676)	(3,675,901)	(40,121) (K)	(3,716,022)	0	(3,716,022)
18	Net Plant in Service	22,781,805	5,411,204	596,925	6,008,129	0	6,008,129
19	Materials & Supplies	1,010,030	233,810	3,190 (L)	237,000	0	237,000
20	Working Capital Investment	(1,697,174)	(401,737)	80,166 (M)	(321,571)	0	(321,571)
21	Plant Held for Future Use	14,835	3,974	9,863 (N)	13,837	0	13,837
22	Nuclear Fuel	527,459	130,305	0	130,305	0	130,305
23	Accumulated Deferred Taxes	(3,428,625)	(877,452)	(13,199) (O)	(890,651)	0	(890,651)
24	Operating Reserves	(343,589)	(82,616)	0 (P)	(82,616)	0	(82,616)
25	Customer Deposits	0	0	0	0	0	0
26	Construction Work In Progress	156,599	36,872	312,295 (Q)	349,167	0	349,167
27	<u>Total Rate Base</u>	\$ 19,021,340	\$ 4,454,360	989,240	\$ 5,443,600	0	\$ 5,443,600
28	<u>Rate of Return</u>	8.09%	7.97%		5.92%		7.06%
29	<u>Return on Common Equity</u>		10.93%		7.15%		9.30%

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Land Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Annualize Retail revenues for current rates Per ORS Per Company	4,461 (46,477)					20 (206)	1,108 (11,545)										
2	Update fuel costs to approved rate and other fuel related adjustments Per ORS Per Company	3,186 3,186	23,771 (27,433)					(5,136) 7,639						(35,976) (35,976)		1,997 1,997		
3	Adjust Other Revenue Per ORS Per Company	(2,735) 0			(4) 0		(8) 0	(679) 0										
4	Adjust the amount of CWIP included in rate base Per ORS Per Company																	312,295 315,850
5	Eliminate unbilled revenues Per ORS Per Company	(63,683) (63,683)					(174) (174)	(15,845) (15,845)										
6	Adjust for costs recovered through non-fuel riders Per ORS Per Company	(12,862) (12,862)			(52,053) (52,053)			9,778 9,778										
7	Amortize deferred cost balance related to Carolinas West Control Center Per ORS Per Company					168 1,781		(42) (444)						3,501 3,563		(874) (889)		
8	Annualize depreciation on year end plant balances Per ORS Per Company					9,059 9,059		(2,260) (2,260)	9 9			(9,059) (9,059)						
9	Annualize property taxes on year end plant balances Per ORS Per Company						3,538 3,538	(883) (883)										
10	Adjust for new depreciation rates Per ORS Per Company					13,304 13,304		(3,319) (3,319)				(10,412) (10,412)		5,784 5,784		(1,443) (1,443)		

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Land Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
11	Adjust for post test year additions to plant in service Per ORS Per Company					16,304 17,583	3,443 3,219	(4,927) (5,190)			492,169 477,583	(16,304) (17,595)						
12	Reflect 2017 Lee Combined Cycle addition to plant in service Per ORS Per Company				723 723	4,346 3,947	817 810	(1,469) (1,367)			144,877 143,531	(4,346) (3,947)	828 828			(17,837) (15,632)		
13	Amortize deferred cost balance related to Lee Combined Cycle Per ORS Per Company					563 7,154		(140) (1,785)						14,473 14,309		(3,611) (3,570)		
14	Adjust for Lee Nuclear amortization Per ORS Per Company					10,383 10,399		(2,591) (2,594)						0 114,386	9,863 9,863	0 (28,539)		
15	Adjust reserve for end of life nuclear costs Per ORS Per Company					0 6,975		0 (1,740)						0 6,975		0 (1,740)		
16	Adjust coal inventory Per ORS Per Company												2,362 2,362					
17	Adjust for approved regulatory assets and liabilities Per ORS Per Company		(113) (113)			(6,256) (6,256)		1,589 1,589										
18	Amortize deferred environmental costs Per ORS Per Company					19,226 48,381		(4,797) (12,071)						75,232 193,522		(18,770) (48,284)		
19	Amortize deferred cost balance related to SC AMI Per ORS Per Company					2,175 12,626		(543) (3,150)						19,210 25,252		(4,793) (6,300)		
20	Normalize for storm costs Per ORS Per Company				966 1,261			(241) (315)										

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments - Retail
For the Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

Adj. No.	Description	(1) Electric Operating Revenue	(2) Fuel Used in Electric Gen.	(3) Purchased Power and Net Interchge.	(4) Other O&M Expense	(5) Deprec. and Amort.	(6) General Taxes	(7) Income Taxes	(8) Amort. of ITC	(9) Cust. Growth	(10) Electric Plant in Service	(11) Accum. Deprec. and Amort.	(12) Materials and Supplies	(13) Working Capital	(14) Land Held for Future Use	(15) Accum. Deferred Taxes	(16) Oper. Resv.	(17) CWIP
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
21	Annualize O&M non-labor expenses Per ORS Per Company		0 2,420					0 (604)										
22	Normalize O&M labor expenses Per ORS Per Company		(7,083) 10,502				643 729	1,607 (2,802)										
23	Update benefits costs Per ORS Per Company		(1,816) (48)					453 12										
24	Levelize nuclear refueling outage costs Per ORS Per Company		(1,160) (1,160)					289 289										
25	Amortize rate case costs Per ORS Per Company		268 770					(67) (192)						(728) 2,949		182 (736)		
26	Adjust aviation expenses deferred costs Per ORS Per Company		(773) (773)				(8) (8)	195 195										
27	OPEN Per ORS Per Company																	
28	Adjust for credit card fees Per ORS Per Company		2,517 3,162					(628) (789)										
29	Adjust O&M for executive compensation Per ORS Per Company		(134) (948)					33 237										
30	Adjust for Customer Connect Project Per ORS Per Company		2,549 4,025			1,063 1,796		(901) (1,452)						0 3,592		0 (896)		
31	Adjust vegetation management expenses Per ORS Per Company		4,878 5,650					(1,217) (1,410)										

Surrebuttal Audit Exhibit GS-3

Duke Energy Carolinas, LLC
Electric Plant in Service at Original Cost
Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

Description	Total Electric Total Company Per Books	South Carolina Retail		
		Per Books	Accounting Adjustments	As Adjusted
Production	\$ 20,770,049	\$ 4,961,737	\$ 419,695	\$ 5,381,432
Transmission	3,874,751	738,077	42,143	780,220
Distribution	11,345,730	2,901,033	132,760	3,033,793
General	1,122,460	269,162	31,739	300,901
Intangible Plant	943,491	217,096	10,709	227,805
Subtotal	\$ 38,056,481	\$ 9,087,105	\$ 637,046	\$ 9,724,151
Nuclear Fuel	527,459	130,305	0	130,305
Total Electric Plant in Service	\$ <u>38,583,940</u>	\$ <u>9,217,410</u>	\$ <u>637,046</u>	\$ <u>9,854,456</u>

Surrebuttal Audit Exhibit GS-4

Duke Energy Carolinas, LLC
Accumulated Depreciation and Amortization - Electric Plant in Service
Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

Description	Total Electric Total Company Per Books	South Carolina Retail		
		Per Books	Accounting Adjustments	As Adjusted
Production	\$ (8,267,617)	\$ (1,993,693)	\$ (32,112)	\$ (2,025,805)
Transmission	(1,403,966)	(268,419)	(1,075)	(269,494)
Distribution	(4,657,540)	(1,191,005)	(7,004)	(1,198,009)
General	(401,403)	(95,522)	2,211	(93,311)
Intangible Plant	<u>(544,150)</u>	<u>(127,262)</u>	<u>(2,141)</u>	<u>(129,403)</u>
Subtotal	\$ (15,274,676)	\$ (3,675,901)	\$ (40,121)	\$ (3,716,022)
Nuclear Fuel	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ <u><u>(15,274,676)</u></u>	\$ <u><u>(3,675,901)</u></u>	\$ <u><u>(40,121)</u></u>	\$ <u><u>(3,716,022)</u></u>

Surrebuttal Audit Exhibit GS-5

Duke Energy Carolinas, LLC
Materials and Supplies
Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

<u>Description</u>	<u>Total Electric</u>	<u>South Carolina Retail</u>		
	<u>Total Company Per Books</u>	<u>Per Books</u>	<u>Accounting Adjustments</u>	<u>As Adjusted</u>
<u>Fuel Stock:</u>				
Coal	\$ 193,823	\$ 47,882	\$ 1,997	\$ 49,879
Oil	<u>35,478</u>	<u>8,765</u>	<u>365</u>	<u>9,130</u>
<u>Total Fuel Stock</u>	\$ 229,301	\$ 56,647	\$ 2,362	\$ 59,009
Other Electric Materials and Supplies and Stores Clearing	<u>780,728</u>	<u>177,163</u>	<u>828</u>	<u>177,991</u>
<u>Total Materials and Supplies</u>	\$ <u>1,010,030</u>	\$ <u>233,810</u>	\$ <u>3,190</u>	\$ <u>237,000</u>

Surrebuttal Audit Exhibit GS-6

Duke Energy Carolinas, LLC
Working Capital Investment
Test Year Ended December 31, 2017
Docket No. 2018-319-E
(000's Omitted)

<u>Description</u>	<u>Total Electric</u>	<u>South Carolina Retail</u>		
	<u>Total Company Per Books</u>	<u>Per Books</u>	<u>Accounting Adjustments</u>	<u>As Adjusted</u>
12 Mths O&M (Excl PP & Nuclear Fuel)	\$ 3,085,907	\$ 731,480	\$ (30,438)	\$ 701,042
1/8 of O&M Expenses	385,738	91,435	(3,805)	87,630
Less: Average Taxes Accrued	<u>(193,735)</u>	<u>(79,853)</u>	<u>0</u>	<u>(79,853)</u>
<u>Subtotal: Investor Funds for Operations</u>	\$ <u>192,003</u>	\$ <u>11,582</u>	\$ <u>(3,805)</u>	\$ <u>7,777</u>
Required Bank Balance	300	70	0	70
Unamortized Debt Expense	113,935	26,437	0	26,437
Customer Deposits	(120,758)	(29,541)	0	(29,541)
Prepayments	15,298	3,634	0	3,634
Miscellaneous Deferred Debits and Credits	<u>(1,897,952)</u>	<u>(413,919)</u>	<u>83,971</u>	<u>(329,948)</u>
<u>Subtotal: Other Investor Funds</u>	\$ <u>(1,889,177)</u>	\$ <u>(413,319)</u>	\$ <u>83,971</u>	\$ <u>(329,348)</u>
<u>Total Working Capital Investment</u>	\$ <u><u>(1,697,174)</u></u>	\$ <u><u>(401,737)</u></u>	\$ <u><u>80,166</u></u>	\$ <u><u>(321,571)</u></u>

Duke Energy Carolinas, LLC
Operating Experience, Rate Base and Rate of Return Reflecting The Company's Proposed Increase
Total and Retail Electric
For the Test Year Ended December 31, 2017
Docket No. 2018-319-E

		TOTAL ELECTRIC - NC & SC		(000's Omitted)			
		(1)	(2)	(3)	(4)	(5)	(6)
Line No.	Description	Total Company Per Books	SC Retail Per Books	ORS Accounting & Pro Forma Adjustments	After ORS Accounting & Pro Forma Adjustments	Company Proposed Increase	After Proposed Increase
1	<u>Operating Revenues</u>	\$ 7,315,231	\$ 1,733,770	(71,633)	1,662,137	\$ 230,807	\$ 1,892,944
2	<u>Operating Expenses:</u>						
3	Fuel Used in Electric Generation	\$ 1,473,809	\$ 338,575	23,771	362,346	0	362,346
4	Purch. Pwr. & Net Interch. (Non-Fuel)	348,770	85,559	0	85,559	0	85,559
5	Other O&M Expenses	1,920,225	469,026	(54,209)	414,817	0	414,817
6	Depreciation & Amortization	1,134,170	251,518	71,516	323,034	0	323,034
7	General Taxes	277,321	85,270	8,271	93,541	1,023	94,564
8	Interest on Customer Deposits	8,500	1,023	0	1,023	0	1,023
9	Income Taxes	618,934	149,043	(85,220)	63,823	57,331	121,154
10	Amort. of Investment Tax Credit	(5,298)	(1,265)	9	(1,256)	0	(1,256)
11	<u>Total Operating Expenses</u>	\$ 5,776,431	\$ 1,378,749	(35,862)	1,342,887	\$ 58,354	\$ 1,401,241
12	<u>Operating Income</u>	1,538,800	355,021	(35,771)	319,250	172,453	491,703
13	<u>Customer Growth</u>	0	0	2,876	2,876	1,553	4,429
14	<u>Net Operating Income for Return</u>	\$ 1,538,800	\$ 355,021	(32,895)	322,126	\$ 174,006	\$ 496,132
15	<u>Rate Base:</u>						
16	Gross Plant in Service	\$ 38,056,481	\$ 9,087,105	637,046	9,724,151	0	9,724,151
17	Accum. Depr. & Amort.	(15,274,676)	(3,675,901)	(40,121)	(3,716,022)	0	(3,716,022)
18	Net Plant in Service	22,781,805	5,411,204	596,925	6,008,129	0	6,008,129
19	Materials & Supplies	1,010,030	233,810	3,190	237,000	0	237,000
20	Working Capital Investment	(1,697,174)	(401,737)	80,166	(321,571)	0	(321,571)
21	Plant Held for Future Use	14,835	3,974	9,863	13,837	0	13,837
22	Nuclear Fuel	527,459	130,305	0	130,305	0	130,305
23	Accumulated Deferred Taxes	(3,428,625)	(877,452)	(13,199)	(890,651)	0	(890,651)
24	Operating Reserves	(343,589)	(82,616)	0	(82,616)	0	(82,616)
25	Customer Deposits	0	0	0	0	0	0
26	Construction Work In Progress	156,599	36,872	312,295	349,167	0	349,167
27	<u>Total Rate Base</u>	\$ 19,021,340	\$ 4,454,360	989,240	5,443,600	\$ 0	\$ 5,443,600
28	<u>Rate of Return</u>	8.09%	7.97%		5.92%		9.11%
29	<u>Return on Common Equity</u>		10.93%		7.15%		13.18%

EXHIBIT GS-9
TO
TESTIMONY OF
GABY SMITH

CONFIDENTIAL

FILED UNDER SEAL
WITH THE
PUBLIC SERVICE COMMISSION